

**STATEMENT OF
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UNDER SECRETARY FOR HEALTH
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE
SUBCOMMITTEE ON HEALTH
COMMITTEE ON VETERANS' AFFAIRS
U. S. HOUSE OF REPRESENTATIVES**

October 21, 2003

Mr. Chairman and Members of the Subcommittee, I am pleased to be here to discuss our legislative proposals that will greatly enhance VA's ability to recruit and retain the highest quality physicians, dentists, and nurses to care for the Nation's veterans.

Mr. Chairman, VA is having increasing difficulty recruiting and retaining a number of physician specialties. This is because the maximum salaries that VA can pay for some physician specialties are non-competitive with the private sector.

The VA compensation structure for physicians and dentists has not changed since 1991. The current system is extremely complex and does not provide the flexibility to respond to the changing competitive market for many medical specialties, especially for the highest paid medical subspecialties. Also, national shortages of many physician specialties critical to our health care mission further affects our ability to fill critical vacancies. In these shortage specialties, VA total compensation lags behind the private or academic sectors by as much as 67 percent.

VA is facing a critical situation because of our outdated pay system. If we are to maintain our tertiary care capability and ability to offer a full range of health services to veterans, we must be able to offer competitive salaries. For several

specialties our turnover rate far exceeds our hire rate, i.e. we are losing these specialists faster than we can hire them. Also, many facilities are not actively recruiting to fill some vacancies due to unavailability of candidates at current VA salary rates. Earlier this year, facilities reported over 900 such vacancies that they would fill if candidates could be found. The effects of noncompetitive pay and benefits are also reflected in dramatic increases in our scarce specialty, fee basis, and contractual expenditures. These expenditures increased from \$180 million in 1995 to \$851 million in 2002. Additionally, we increasingly must hire non-US citizens under J-1 visa waiver authority and international medical graduates – currently almost 30% of our workforce. Also, although Congress increased special pay for dentists in 2000, those increases did not bring VA pay up to the levels in private dental practice.

The problems with the current system are clear: special pay rates are fixed in statute, so over time their values are eroded by inflation, and VA pay eventually falls behind the market. We already are paying the maximum authorized amounts for scarce specialists; there is no discretion under existing statute to pay more to retain these mission-critical employees.

As you know, increased enrollment by veterans of all ages for VA health care and the need for more comprehensive care to aging veteran patients is increasing workloads across the system. At the same time, current trends indicate a steady decrease in the number of physicians and dentists VHA will be able to employ. This decrease will result from increased retirements, losses to the private sector, a shrinking dentist labor supply, and increasing difficulty in recruiting replacements. These factors will combine to create significant gaps between VHA's staffing needs and available resources for most physician specialties. Without the flexibility to adjust pay in response to market pressures we will be unable to meet the demands of our increasing workload. We will be forced to rely more heavily on scarce medical specialist contracts and fee basis care, which often cost more than using VHA physicians. Thus it is critical that we be able to offer more competitive compensation for physicians and dentists.

Proposed New VA Physician/Dentist Pay System

Mr. Chairman, our bill would completely revise the VA physician and dentist pay system to allow VA to adjust physician and dentist compensation levels according to market forces. Under our proposal, the system would have three bands: base pay, market pay, and performance-based pay. VA would benchmark the sum of all three bands to the 50th percentile of the Association of American Medical Colleges (AAMC) Associate Professor compensation (for physicians) and 75 percent of American Dental Association (ADA) net private practice income (for dentists). The base pay component would be increased by the annual comparability adjustments to Federal pay authorized by Executive Order. The system's simplicity and flexibility would ensure that VA physician and dentist compensation levels and practices do not become outdated over time due to statutory limits.

First Tier – Base Pay. A uniform base pay band will apply to all positions in VHA, without grade distinctions. The proposed range is Chief grade, step 10 of the VA Physician/Dentist Schedule to Level V of the Executive Schedule, from roughly \$110,000 to \$125,000. This change will dramatically simplify hiring and employment and facilitate reassignments and position changes. Placement in this band would be based on the individual's qualifications.

Second Tier – Market Pay. The second tier, the market pay band, will be determined according to geographic area, specialty, assignment, personal qualifications and individual experience. It would be indexed to the salaries of similarly qualified non-Department physicians, dentists, and health-care executives at the entry, mid-career, and senior levels. The flexibility of this tier allows VA to keep pace with the market, both on upward and downward trends. VA would link the market band for clinicians to AAMC faculty compensation. For executives at the Chief of Staff (COS) level and above, the benchmarks would be hospital and HMO executive compensation levels. For dentists, the benchmark

will be American Dental Association (ADA) net private practice income. Our primary competition in the marketplace is private practice income.

Third Tier – Performance Pay. The third band will be linked to performance, and would be paid for discrete achievements in quality, productivity, and support of corporate goals. The measures will be flexible and generally set locally; we could also mandate national objectives. VA facilities could authorize performance pay of up to \$10,000 for physicians and dentists below the Chief of Staff (COS) level. For managers at the COS level and above, ten percent of their benchmarked pay would be at risk, and would be payable to the extent that performance goals are met. This will address a concern that has been raised by the General Accounting Office and others of a disconnect between employees' performance and their pay.

The draft bill also would prohibit senior title 38 officials at the Chief of Staff level and above from receiving any compensation, whether from employment or contract, and from accepting any offers of future employment, from medical schools affiliated with their respective VAMCs. This prohibition will reduce the risk of potential conflicts of interest, and will ensure that the Department's interests in agreements with affiliated medical schools are adequately protected. It is highly desirable to have an independent senior clinical official at each facility.

Details of VA's Implementation Plan

- Salary benchmarks will be set at the national level and communicated to networks. Local facilities would set pay levels within a range (± 10 percent of the benchmark) according to local circumstances. Any decision to set pay outside the 10-percent band will require higher-level approval.
- Benchmark salaries will be set for each specialty and location, at entry, mid-career, and senior levels. Increments and graduated benchmarks will be set to reflect varying levels of experience and to provide for reasonable income growth over a period of time.

- We will use ADA net private practice income to set VA dentist salary benchmarks.
- Specific amounts of each tier and the total payable for each clinician will be set at the local level. This continues the VA practice of local pay setting based on national policy (used for physician and dentist special pay, nurse locality pay system, and special salary rates).

Our proposed physician and dentist pay would be effective on the first day of the first pay period on or after the later of April 1, 2004, or six months after the date of enactment. We estimate the 2004 cost would be \$48 million.

Other Critical Proposals

Mr. Chairman, our pay bill also includes important provisions allowing more flexible tours for nurses and an executive pay proposal for nurse leaders. I request that the committee also act on these proposals. I have already noted the projected increase in the number of aging veterans and increased enrollment in the VA healthcare system by veterans of all ages over the next several years that will increase workload across the VA healthcare system. At the same time, national nursing leaders and healthcare organizations are projecting a national shortage of registered nurses. The proposals in our bill will help VA remain a competitive place of employment for nurses and to meet current and future healthcare needs.

We also request that the committee act on a draft bill we recently forwarded to Congress that would clarify the authority of the Secretary to promulgate regulations relating to staff adjustments of title 38 employees and to clarify the exclusion from coverage under general civil service laws of title 38 personnel laws and regulations. As you know, exclusive title 38 authority was provided by Congress to help assure that VA would have the ability to assure quality of care is provided to the Nation's veterans. A recent Federal Court decision has diluted the Secretary's authority to prescribe the "conditions of

employment” for all title 38 medical professionals. This decision would have us make decisions regarding staffing of particular facilities without regard to the individual’s professional competencies and patient care needs. This consideration is critical to staffing a health care system in which staff members’ particular competencies dictate the quality of care a facility can provide.

Mr. Chairman, we very much appreciate your scheduling this hearing to address the need for reform of VA’s Physicians and Dentists pay authority. We are in a critical situation with increasing needs of veterans for health care while our current pay system leaves us in a very non-competitive position for recruiting the staff we need today and into the future.

This concludes my prepared statement. I would be pleased to answer any questions you may have.